COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GTE SOUTH INCORPORATED FOR A WAIVER AND AUTHORITY TO AMORTIZE THE CALL PREMIUM EXPENSES AND THE UNAMORTIZED COST OF ISSUANCE EXPENSES IN CONNECTION WITH PREVIOUS AUTHORITY GRANTED TO SELL FIRST MORTGAGE BONDS AND/OR PROMISSORY NOTES IN AN AMOUNT UP TO $150,000,000	)	CASE NO. 89-201

O R D E R

On July 19, 1989, GTE South Incorporated ("GTE South") filed an application requesting a waiver which would allow the company to amortize debt refinancing expenses and call premiums associated with reacquired debt either over the life of the replacement debt issue or over the remaining life of the reacquired debt issue. GTE South requested the accounting treatment waiver for the possible refinancing of existing bonds previously approved by the Commission. The refinancing would be at a lower rate of interest.

Under the New Uniform System of Accounts ("USoA") for telephone utilities, Part 32, of the Federal Communications Commission ("FCC"), adopted by this Commission and effective on and after January 1, 1988, debt refinancing expenses including call premiums, discounts, and unamortized expenses associated with the reacquired debt are to be expensed currently. Under the USoA in place prior to the adoption of Part 32 of the FCC rules, deviation was permitted to allow spreading the costs over time.

In seeking this waiver, GTE South claims that the deviation would benefit its ratepayers. The Commission is not persuaded by this argument. This argument is only true if the company chose not to refinance the existing bonds at a lower rate of interest. Assuming refinancing would occur regardless of accounting treatment, ratepayers would likely pay more if the costs of refinancing were spread over time since those costs would increase the embedded cost of debt in future rate cases.

The new USoA took years to implement and drastically changed accounting procedures and methods for telephone companies. The purpose of the massive accounting change was to make regulated accounting more nearly conform to generally-accepted accounting principles in order to reflect the competitive and technologically innovative nature of telecommunications in today's environment.

Implementation of the new USoA was expensive to the ratepayers of Kentucky, and the accounting changes themselves brought about a significantly higher level of current rates in GTE South's most recent rate case, Case No. 10117,[1] than would have been required under the old USoA. Much of the accounting changes reflected in Case No. 10117 involved the current expensing of costs previously spread over longer periods of time. Changes were identical in nature to the situation involving debt refinancing costs. However, as the test-period expense levels benefitted GTE South, no argument was made that the costs should be spread over a longer period of time, indeed the reverse was true.

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1 Case No. 10117, Adjustment of Rates of GTE South Incorporated.

The Commission is of the opinion that no exceptions should be made. The new USoA balances the interests of the telephone companies and their ratepayers, and selective deviation would frustrate the intent and application.

The Commission, moreover, does not look favorably upon short-term management decisions which fail to reduce the overall cost of operations. If bonds can be refinanced at a lower cost, they should be, regardless of whether current earnings are artificially depressed by current expenses of refinancing or not.

The Commission, being sufficiently advised, HEREBY ORDERS that GTE South's request for a waiver on accounting treatment is denied.

Done at Frankfort, Kentucky, this 15th day of September, 1989.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director